



williams giles
Chartered Accountants
A Xeinadin Company

The Diocese of Canterbury Academies Trust

Final Audit Findings

For the year ended 31 August 2020

Office & Registered Office:

12 Conqueror Court, Sittingbourne, Kent. ME10 5BH

Williams Giles is the trading name of Williams Giles Professional Services Ltd a company registered in England and Wales Co. No. 11411023.

A list of company directors can be found at the above address.

Registered Auditors
Business & Tax Advisors

Tel: 01795 478044
Fax: 01795 427757

Web: www.williamsgiles.co.uk
Email: admin@williamsgiles.co.uk

Index

		Page no
1	<u>Introduction</u>	3
2	<u>Audit approach</u>	4
3	<u>Summary of significant audit findings</u>	5 – 7
4	<u>Summary of audit differences and draft letter of representation</u>	8
5	<u>Anticipated Audit Report</u>	8
6	<u>Regulatory assurance engagement findings</u>	9d

Appendices

Appendix 1	<u>Audit Adjustments</u>
Appendix 2	<u>Unadjusted Audit Errors</u>
Appendix 3	<u>Changes to the Accounts Direction</u>
Appendix 4	<u>Changes to the Academies Financial Handbook & Recent Updates</u>

1. *Introduction*

During the course of our audit and regularity assurance engagements for the year ended 31 August 2020 a number of matters arose which we consider should be brought to your attention.

Accompanying this letter is a memorandum noting these points together with any recommendations we have for possible improvements which could be made.

These matters came to light during the course of our normal audit and assurance tests which are designed to assist us in forming our opinion on the financial statements and providing a limited assurance conclusion on regularity. Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit and assurance tests, we would, of course, inform you immediately.

We have complied with the Financial Reporting Council's Ethical Standard and all threats to our independence, as identified to you in our Audit Planning Memorandum, have been properly addressed through appropriate safeguards. No additional facts or matters have arisen during the course of the audit that we wish to draw to your attention and we confirm that we are independent and able to express an objective opinion on the financial statements.

This report has been prepared for the sole use of the trustees of **The Diocese of Canterbury Academies Trust**. We understand that you are required to provide a copy of this report to the Education & Skills Funding Agency who may share this information internally within the Department for Education for decision making purposes. With the exception of this, no reports may be provided to third parties without our prior consent. Consent is, and will only be, granted on the basis that such reports are not prepared with the interests of anyone other than the academy in mind and that we accept no duty or responsibility to any other party. No responsibilities are accepted by Williams Giles Professional Services Ltd towards any party acting or refraining from action as a result of this report.

We would be grateful if you could enter the academy trust's comments against each point under the "management response" column of the memorandum and return it to us in due course.

Finally, we would like to express our thanks to all members of the academy's staff who assisted us in carrying out our work.

Yours faithfully

Williams Giles Professional Services Ltd
Statutory Auditor
Chartered Accountants
DATE

2. Audit approach

Our general audit approach was determined by our assessment of the audit risk, both in terms of the potential misstatement in the financial statements and of the control environment in which the company operates.

To summarise our approach, we:

- updated our understanding of the entity and its environment;
- reviewed the design and implementation of key internal financial control systems; and
- planned and performed an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

Significant risks arise on most audits and are often derived from business risks that may result in a material misstatement, relate to unusual transactions that occur infrequently, or judgemental matters where measurement is uncertain. In areas where we identified the potential for significant risk, we extended our audit testing to include more detailed substantive work. Our work in other areas was proportionally less.

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

There were no changes to our audit approach as previously communicated to you in our Audit Planning Memorandum.

3. Summary of significant audit findings

Significant risk area identified at planning	Findings, significance and recommendations	Management response / timetable for action
Related Parties	No significant issues identified	
Revenue Recognition AMBER	During the audit it was identified that all schools had posted some ESFA income to the GAG income codes, causing the GAG income to be overstated. Going forward, we recommend that all ESFA and GAG income are posted separately.	Noted – the Trust will action the recommendation.
Accounting estimates	No significant issues identified	
Staff costs	No significant issues identified	
Accounting for cash receipts and cash payments	No significant issues identified	
Accounting for accrued expenditure	No significant issues identified	
Pension Liability	No significant issues identified	
COVID-19	No significant issues identified	

Other areas where issues were identified during the audit	Findings, significance and recommendations	Management response / timetable for action
Depreciation GREEN	During the audit, it was identified that depreciation has been posted inconsistently, some schools have posted it, some not. This could lead to inconsistent reporting. It is recommended that depreciation is applied consistently across all schools.	Noted – the Trust had agreed with WG that this will rectify with the implementation of the new finance package in September 2021.
Opening Balances GREEN	During the audit, it was identified that the opening	Noted – this will be rectified with the implementation of



	<p>balances per the Trial balance did not agree to the closing balances in the 2019 accounts.</p> <p>This is due to a lack of year end journal adjustments. We would advise that the postings for accruals, prepayments, deferred income etc are posted to Civica prior to audit commencement.</p>	<p>the new finance package in September 2021.</p>
--	--	---

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our audit is, therefore, not designed to identify all control weaknesses and the matters reported below are limited to those deficiencies that we have identified during the audit.

Control weakness identified and significance	Potential implications and recommendations	Management response / timetable for action
<p>Lack of Purchase orders raised AMBER</p>	<p>During the audit it was identified that a lack of purchase orders are being raised – most notably in the Central Trust. (BRE, REC and TEP were noted to have used Purchase orders for all samples tested).</p> <p>Going forward, we recommend that all expenditure transactions have a relevant purchase order, which is authorised by the relevant staff member / budget holder.</p>	<p>Noted.</p>

Status of findings / recommendations from previous years

Audit issues communicated in last year's audit findings report and our proposed approach to each of these areas, in light of developments in the year are outlined below:

Findings / recommendations	Status in current in year	Management response / timetable for action
<p>Accounting for cash receipts and cash payments Not all items have been fully received in the year</p>	Much improvement seen – receipts appear to be in consistent use across the Trust.	
<p>Accounting for accrued expenditure Some transactions were not identified by the client.</p>	Immaterial issues only	
<p>Regularity Assurance RED - At one school during the year, payments totalling £18,279 were made to staff in excess of their contractual pay. These amounts were not authorised in line with the Trusts scheme of delegation. All payments must be made within the authorised scheme of delegation.</p>	No issue identified in current year	
<p>Staff Contracts GREEN - Staff contracts are not kept up to date on personnel files. This could lead to incorrect payments. It is recommended that for each and every salary variation a new update letter is kept on the personnel files.</p>	No issue identified in current year	
<p>Cash Receipts AMBER - Cash Receipts have not been used consistently. This could lead to petty fraud. Receipts should be used for each and every instance of cash income.</p>	Much improvement seen – receipts appear to be in consistent use across the Trust.	

<p>DBS AMBER - One employee tested did not have a DBS check until 5 days after starting, it is recommended that all staff must have a valid DBS on file prior to their first working day.</p>	<p>No issues identified in current year</p>	
<p>Assets GREEN - Some assets identified for testing could not be located. However, the majority were. It is recommended that there is a continuation of the fixed asset review so that all asset locations are clearly stated in the registers.</p>	<p>Immaterial issues only</p>	
<p>Deprecation GREEN – Depreciation has been posted inconsistently, some schools have posted it, some not. This could lead to inconsistent reporting. It is recommended that depreciation is applied consistently across all schools.</p>	<p>Remains an issue in current year – See above</p>	<p>Noted – see comment above.</p>
<p>Stock GREEN - Stock is a clearly trivial value across all schools, however it appears that checks are not taking place in all schools of the trust. This will not materially affect the accounts, but counts should be taken across all schools.</p>	<p>No issues identified in current year</p>	
<p>Delivery Notes GREEN - Delivery notes were not consistently kept, these should be attached to Invoices to prove that all assets have been received.</p>	<p>Minor issues identified but unlikely to report this year.</p>	<p>Noted.</p>

4. Summary of audit differences and draft letter of representation

Please see Appendix 2 for schedule of all of the unadjusted misstatements noted during our work. We would be grateful if you could review these and confirm that you are satisfied that none of these need to be adjusted for in the financial statements

We have separately sent a draft letter of management representations required in connection with our audit.

5. Anticipated Audit Report

We anticipate that we will issue an unmodified audit report for the year, subject to the satisfactory clearance of any outstanding/unresolved the matters outlined in this report.

6. Regularity assurance engagement findings

We conducted our regularity assurance engagement in accordance with the Academies Accounts Direction 2019 to 2020 issued by ESFA. We performed a limited assurance engagement as defined in our engagement letter. The ESFA has no right by virtue of the regularity engagement to place reliance on our work and the opinion we form in respect of our statutory financial statements audit of the academy trust.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement included examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust's income and expenditure. The work undertaken to draw our conclusions included:

- An assessment of the risk of material misstatement and irregularity
- Testing and review of areas identified through risk assessment including enquiry, inspection and review, observation and re-performance
- Review of system controls, policies and procedures in place to ensure compliance with the regularity regime



- Consideration of evidence obtained through the work performed as part of our audit in order to support the regularity conclusion

We anticipate that we will issue an unmodified regularity assurance report for the year, subject to the satisfactory clearance of any outstanding/unresolved the matters outlined in this report.

Regularity issues brought to your attention in connection with the regularity assurance engagement are as follows:

Findings and significance	Potential implications / financial impact and recommendations	Management response / timetable for action
Lack of Purchase orders raised AMBER	During the audit it was identified that a lack of purchase orders are being raised – most notably in the Central Trust. (BRE, REC and TEP were noted to have used Purchase orders for all samples tested). Going forward, we recommend that all expenditure transactions have a relevant purchase order, which is authorised by the relevant staff member / budget holder.	Noted.



Appendix 1 – Audit Adjustments

Appendix 2 – Unadjusted Audit Errors

Appendix 3 Changes to the Academies Accounts Direction

There have been a number of updates to the Academies Accounts Direction. The detail is available at;

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922611/Academies_Accounts_Direction_2019-2020.pdf

Some of the highlights include;

- reflecting new statutory elements in the **trustees' report**, covering the success of the company, employee engagement and business relationships [3.1.11] and [annex A – Coketown Trustees' Report]
- reflecting new statutory requirements for **streamlined energy and carbon reporting** in the trustees' report [3.1.25]
- clarifying that instances of **irregularity, impropriety or non-compliance** noted in the accounting officer's statement on regularity, propriety and compliance, and in the reporting accountant's report on regularity should state the relevant monetary amounts, if known [3.3.2, 4.2.1, annex B (2.18) and annex B (3.12)]
- introducing a requirement for academy trusts to explain how their audit arrangements are affected by the newly revised **FRC Ethical Standard**, where applicable [3.2.11 and annex A - Coketown Governance Statement]
- referencing ESFA's checklist to help trusts **prepare for external audit** [4.1.5]
- identifying **legal costs** in the notes to the financial statements [5.1.23 and annex A - Coketown note 9]
- introducing an analysis of **changes in net debt** as a note to the financial statements, to comply with the updated SORP [5.3.2 and annex A - Coketown note 27]
- updating the example **funds** notes to provide guidance where academies, who are part of trusts with multiple academies, have a zero balance on all funds in both the current and previous years [7.1.3 and 7.1.9]
- explaining that the transfer of activities to a **wholly-owned subsidiary** should be accounted for as a merger, to comply with the updated SORP [7.2.2]
- confirming that **two or more subsidiaries** may only be excluded from consolidation if they are not material when taken together, to comply with the updated SORP [7.2.4]
- where trustees have reviewed and taken account of the guidance in the Governance Handbook and competency framework for governance, encouraging them to explicitly state this in the governance statement [annex A – Coketown Governance Statement]
- updating the **Teachers' Pension Scheme** notes to reflect the latest actuarial valuation [annex A – Coketown note 31]
- clarifying that the requirement to have an **accounting officer** to sign off the regularity statement includes the period in the run-up to trust closure [annex B - paragraph 2.26]

Appendix 4 Changes to the Academies Financial Handbook & Recent Updates

Internal and External Audit Services Provided by the Same Firm

The Revised Ethical Standard 2019 takes effect from 15 March 2020, one of the key changes regarding audit independence has resulted in a complete ban on audit entities providing both external and internal audit services. Therefore for the accounting period starting 1 September 2020 academy trusts must appoint separate companies to undertake internal and external audit provisions.

Internal Scrutiny

All academy trusts must have a programme of internal scrutiny to provide independent assurance to the Board that its financial and non-financial controls and risk management procedures are operating effectively.

The Trust must identify on a risk-basis (with reference to the risk register) the areas it will review each year. This could involve greater scrutiny where procedures or systems have changed.

Independence in internal scrutiny must be achieved by establishing appropriate reporting lines where those carrying out checks report directly to a committee of the Board, which in turn provides assurance to the Trustees.

The audit and risk committee must:

- direct the Trust's programme of internal scrutiny
- ensure that risks are being addressed appropriately through internal scrutiny
- report to the board on the adequacy of the trust's internal control framework

Employees of the trust should not be audit and risk committee members, but the accounting officer and chief financial officer should attend to provide information.

Where the audit and risk committee is combined with another committee, employees should not participate as members when audit matters are discussed.

Related Party Transactions

Academy Trusts must report all contracts and other agreements with related parties to ESFA in advance of the contract or agreement commencing using the ESFA's related party on-line form. This relates to all contracts and agreements made on or after 1 April 2019.

Trusts must obtain ESFA's prior approval for contracts and other agreements for expenditure incurred on or after 1 April 2019 where the following applies:-

- a contract of other agreement exceeding £20,000
- a contract or other agreement of any value that would mean the cumulative value of contracts and other agreements with the related party exceeds, or continues to exceed, £20,000 in the same financial year ending 31 August.

Academy Trust Financial Management Good Practice Guides

The ESFA has released a series of best practice guides covering the following areas

- Operating an academy trust as a going concern
- Choosing an external auditor for an academy trust
- Academy trust deficit recovery
- Academy trust risk management
- Leasing guidance for academy trusts
- Academy trust management accounting

This documents can be found using the following:

<https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides>

Fraud Indicators

The ESFA published a checklist for education providers on the indicators of potential frauds, categorising indicators into the following areas:-

- Personal motives for fraud
- Organisational motives for fraud
- Weaknesses in internal controls
- Transaction indicators
- Possible methods used to commit and/or conceal fraud
- Record keeping/banking/other

<https://www.gov.uk/government/publications/indicators-of-potential-fraud-learning-institutions>

Purchase of Alcohol

The use of alcohol in fundraising events has been clarified. These events should be run through the PTA and any profits gifted to the Academy Trust.

ESFA Written Communication to Accounting Officers – 16 July 2020

On 16 July 2020, Eileen Milner, Chief Executive for the ESFA wrote to all Accounting Officers providing an update and highlighting some key change/reminders including:-



- **Governance** - We have introduced more information about trustees' responsibility to take ownership of the trust's longer term financial sustainability and to maintain it as a going concern. We also continue to emphasise the importance of members being kept informed about trust business so they can be assured that the board is governing effectively.
- **Executive Team** - The new handbook confirms that both the accounting officer and chief financial officer should be employees of the trust, and introduces a requirement for ESFA approval if, exceptionally, they are not. Approval will apply to new appointments made after the handbook comes into effect on 1 September 2020.
- **Internal scrutiny** - We are highlighting recent changes by the Financial Reporting Council prohibiting external auditors from providing internal audit services to the same client. For this purpose, we consider that internal scrutiny should be viewed in the same way as internal audit.

A reminder of key deadlines

Return	Launch date	Deadline for submission
Land and buildings collection tool (LBCT)	12 Nov 2020	17 Dec 2020
Audited financial statements - Accounts submission coversheet - Auditor's management letter - Internal scrutiny annual summary report	13 Oct 2020	31 Jan 2021
Accounts return (AR)	10 Nov 2020	23 Feb 2021
Budget forecast return outturn (BFRO)	20 April 2021	18 May 2021
Budget forecast return three year (BFR3Y)	22 June 2021	27 July 2021